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SUBJECT: QATAR'S LEADING BANKS SUPPORT ERO DIVERSIFICATION

¶1. Summary. In discussions with senior management of Qatar's top two banks, Qatar National Bank and Doha Bank, Emboffs learned that the private sector anticipates Qatar's continued diversification away from the dollar as the country becomes more involved in the global economy. Bank officials also say that the GCC monetary union is unlikely to happen by 2010, but the USD exchange rate peg that most Gulf Cooperation Council (GCC) members have is likely to stay until the monetary union is formed. End Summary.

¶2. On February 11 Emboffs met with R. Seetharaman, Deputy Chief Executive Officer of Doha Bank. Seetharaman said that because of Qatar's rapid economic growth, Qatar is taking advantage of more investment opportunities abroad which necessitates a diversification of not only investment destinations, but also a diversification of foreign exchange reserves. Considering the declining value of the dollar, maintaining an entire portfolio of dollar-denominated securities does not make sense for such a booming economy. Seetharaman felt that the Qatar Central Bank was doing the right thing to protect its economic interests. Seetharaman said that the GCC Monetary Union will absolutely happen, just not on the announced time schedule. He felt that it was only a matter of time before the GCC countries achieved all the criteria for a monetary union. Seetharaman also surmised that GCC countries would keep their peg to the dollar until the monetary union is formed, but after that a basket peg would make more sense.

¶3. Mohamad Moabi, Executive Manager of Qatar National Bank's Economics and Research department, told Emboffs February 12 that it was about time for Qatar to diversify because globalization demands it. He said that the U.S. is no longer the primary destination for Qatari investment and business. This is primarily because of the Dubai Ports World controversy, poor treatment by officials at airports, and the difficulty in getting visas. In addition, there are more attractive investment areas, particularly in Asia, of interest to the Qatari business community and as a result the historical relationship with the U.S. is changing.

¶4. Moabi also does not think the GCC monetary union will happen in the near future, primarily for political reasons. He said the nature of decision-making in the GCC makes it hard for leaders to resolve their own domestic issues. Working together is difficult because each GCC state has different priorities. Moabi also stated that Saudi Arabia was still trying to control the smaller GCC members but the increasing prominence of countries like Qatar and the UAE made that harder to accomplish. He asserted that Oman was "courageous" for saying that they would not join the monetary union by 2010 and that other countries probably feel the same way but just did not want to voice their opinion.

¶5. Under an eventual monetary union, Moabi expects that the GCC would have a more independent monetary policy that best suits the regional economic environment. The current peg to the U.S. dollar will be used to help standardize all the

countries before the monetary union, but he could see the peg changing to include more of the GCC's economic partners. He also thinks that the monetary union will help boost trade between the GCC members because the existing customs union is not strong enough. On a side note, Moabi stated that while Qatar's economy could accommodate both the local banking sector and the Qatar Financial Centre, in the next five years there will not be enough room in the market and banks will have to move more into private wealth and asset management.

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COMMENT  
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¶6. The banking executives with whom we spoke appear quite adamant that Qatar continue expanding its business relationships away from U.S., primarily to broaden and provide greater security to their international investments. They probably view foreign exchange reserve diversification as an extension of this shift and as a positive for Qatar's global aspirations. While the Qatari private sector is very forward leaning on diversifying Qatar's foreign exchange into the euro, the government is more conservative and we judge Qatar's tie to the dollar is unlikely to change in the near future.

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